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SUBJECT: PDAS MANN BUSINESS ROUNDTABLE: UNEVEN PLAYING FIELD HURTS
U.S. BUSINESS EFFORTS IN TURKMENISTAN

SUMMARY

¶1. (SBU) During a May 30 roundtable with SCA PDAS Steve Mann, a varied group of expatriate business leaders broadly agreed that there had been very little change in the foreign business climate in Turkmenistan since the December death of President Niyazov. All noted that the Government of Turkmenistan was their main, if not their exclusive, contracting partner, posing a unique set of challenges in doing business. The lack of rule of law remained a fundamental problem: all contracts were considered to be open to "interpretation" under Turkmenistan's law, which was often contradictory on material points or which was subject to change with no warning. While all parties welcomed the idea of increased U.S. investment in Turkmenistan, the roundtable participants were frank about the challenges newly arriving businessmen would likely face.
End Summary

PARTICIPANTS

¶2. (SBU) The U.S. delegation led by PDAS Steven Mann included the following members: Wendell Coote, Energy Analyst; Lena Ekimoff, Department of Energy; Dan Stein, U.S. Trade Development Agency (USTDA); and Mark Sullivan, U.S. Executive Director for the European Bank of Reconstruction and Development (EBRD). Business sector guests included: Vladimir Naumov, Zeppelin (Caterpillar); Jason Hunt, IPC Agri(John Deere); Akhtar Sharif, Burren Resources; Gurban Seyitli, Cooper Cameron; Muhammad Rizwankhan, National Bank of Pakistan; Alexander Zaets, Chevron; Muhammet Cap, Sehil Insaat; Jamal Ozdemir, Coca-Cola; and Janer Demir, Polimeks. All but Seyitli are foreign nationals resident in Turkmenistan. The companies provide goods and services in the petroleum, construction, agricultural, and financial sectors.

ROLE OF FOREIGN GOVERNMENT ADVOCACY

¶3. (SBU) Throughout the ninety-minute meeting, several common themes emerged from the business leaders' observations.

-- First, since almost all large contracts are signed with the Government of Turkmenistan, instead of with private firms, the participants concurred that involvement and support of their governments was crucial for foreign businesses. In most cases, foreign companies were unable to get high-level meetings with host government decision-makers without the active involvement of their own governments and their embassies.

-- Foreign governments often needed to use political persuasion to

advocate for their companies throughout the lengthy, arduous contract negotiation process, which often took several years to complete. And some countries -- namely Japan and China -- sweetened the negotiations by offering advantageous financing options for their companies that American companies would not be able to offer. For example, Zeppelin/Caterpillar's country director, Victor Naumov, noted, his competitor, Komatsu, the Japanese Export/Import Bank had provided financing support for a sale of Komatsu equipment. U.S. government delegates noted that the low-interest terms the Chinese Exim Bank had offered for a loan connected with a fiber-optic deal appeared to be in violation of World Trade Organization (WTO) anti-dumping regulations. The Zeppelin/Caterpillar representative noted that Komatsu had an added advantage because the official in charge of awarding the contract for petroleum field construction equipment was Deputy Chairman for Oil and Gas Tachberdi Tagyev, who sat on the Japanese-Turkmenistani joint economic committee. Mann's delegation noted that past U.S. experience with similar joint commissions in other countries suggested that the benefit of these commissions rarely justified their costs. PDAS Mann noted that the United States had invited Tagyev to visit to discuss expanding cooperation in several areas.

-- Finally, participants stressed that, given the limited respect for rule of law in general in Turkmenistan, foreign companies needed to have their governments behind them to support their claims in cases of egregious manipulation of contract terms. Because of the many internal inconsistencies in Turkmenistan's business and labor law, contracts were subject to a steady barrage of attempts by opportunistic officials to alter or "reinterpret" material terms according to newly discovered, obscure regulations that often contradicted previously cited regulations. When PDAS Mann asked whether there was any other Central Asian country, in their opinion, with a comparable level of state control over its economy, there was a long silence followed by unanimous agreement that Turkmenistan was the worst among equals.

SKEWED MARKET DYNAMICS AFFECT CONTRACTS

14. (SBU) Participants also agreed that another consequence of foreign companies having to deal almost exclusively with the Government of Turkmenistan was that market competition factors did not drive contracts. Whereas private enterprises sought to buy machines or services that would improve their competitive posture, state concerns had no internal competition and their production goals were driven by political, rather than market, considerations. And this had led -- more than once -- to instances where the government had chosen cheaper, inferior products and services in a political effort to enhance relations with specific countries.

15. (SBU) As an example, the Cooper Cameron representative cited the contract awarded to a Chinese company to work the South Yolaten field because the firm had submitted a lower bid for its equipment and services than Western companies. However, this inferior equipment, operating by workers with inadequate training, had resulted in a fire that burned for four months and was only brought under control after the government reached out to Western companies for help.

16. (SBU) The John Deere representative also noted a similar dynamic with agricultural equipment sales: equipment from Russia and Belarus was significantly cheaper to buy, though it was technologically inferior and could not compete with John Deere in terms of durability or output. The government had made a political decision to buy a number of Belarusian tractors, which often broke down within a year. As a side note, however, he also stated that, even when the government made the decision to go with the more expensive but higher-grade U.S. equipment, producers could not fully capitalize on increased agricultural yields from using the superior equipment because of poor internal transportation and distribution infrastructure.

NEED FOR CONVERTIBLE CURRENCY

17. (SBU) According to participants, the existence of a vastly inflated official exchange rate for manat to dollars also

complicated business operations. Although the official rate was 5200 manat to the dollar, and the market rate fluctuated slightly between 23,600 to 23,900 manat to the dollar. Under the law, government payments for purchases or services within Turkmenistan had to be in manat, at the official rate. To get around this, companies purchased goods offshore in dollars and factored the shipping cost into the contract. Local representatives still faced the challenge of spending down the manat received in payment for related service contracts. In large quantities, manat were difficult to reconvert to dollars, so service payments were generally used to sustain local country office operations and were not expected to be exported.

118. (SBU) The National Bank of Pakistan representative noted additional constraints due to local laws requiring all foreign money transfers to be routed through the Central Bank of Turkmenistan, which took a cut of each transaction. The Burren representative said that his company had faced problems with the Ministry of Labor, which insisted that his employees, whose contracts stipulated that they be paid in dollars, were not making minimum wage under local law, when the salaries were converted at the official rate. (Comment: Embassy's consular section reports that local administrative staff of the companies represented, on average, earn three to four times the salary of mid-level government employees. End Comment.)

HUMAN RESOURCE CAPACITY

119. (SBU) Another challenge foreign companies faced was finding and hiring well-educated English speakers. The decline in the educational system over the last several years had produced a generation of locals who were not educated to international standards. While English was taught in local schools, the quality of teaching was often very poor. English, the businessmen agreed, was the international language of business and was more important to them than Russian language ability, which would facilitate regional business transactions only. Interestingly, the businessmen generally agreed that there was a larger pool of educationally qualified, motivated female job applicants than male.

1110. (SBU) While roundtable participants agreed that the proposed plan to send local students to the West for university-level

training was a good start, they felt the damage was so severe that it would take years for those efforts to pay off. In the meantime, noted the Zeppelin representative, "When you find a good person, the other foreign companies lure (him/her) away!" In response to a question from PDAS Mann, the businessmen affirmed that conditions for citizens of Turkmenistan were still bad and educated young people with options had little incentive to return following education abroad. With the new administration following the death of President Niyazov, participants sensed a general hope that the employment situation might improve, but few believed change would be quick and dramatic.

BUREAUCRACY, BUREAUCRACY, BUREAUCRACY

1111. (SBU) The arcane and dysfunctional bureaucratic practices of almost every branch of the government -- from the Labor Ministry to the Central Bank to the State Service for the Registration of Foreigners (SSRF) -- were not only a source of frustration, but also a source of increased costs for doing business in Turkmenistan. Officials who were used to extracting bribes from locals to complete necessary paperwork proved unhelpful to foreign companies that could not pay the bribes.

1112. (SBU) As an example, participants pointed to the Soviet-legacy visa regime. Even in cases where the government had a clear desire to facilitate travel, its bureaucracy was not set up to fast-track clearances. While requests for letters of invitation (LOIs), the prerequisite for visa issuance, to be approved by the government generally took three weeks or so, the National Bank of Pakistan representative reported that he was able to get "expedited" LOIs for a delegation in 8 to 14 days. (Comment: Embassy continues to lobby the government to address problems in the LOI/visa system, which are exacerbated by the fact that the Foreign Affairs Ministry controls

the visa regime, while the SSRF controls the obligatory LOI regime. When problems arise, neither accepts responsibility. End Comment.)

TRANS-CASPIAN PIPELINE TO BTC WOULD HELP

¶13. (SBU) The businessmen were hopeful that the long-discussed Transcaspian pipeline linkage of Turkmenistan to the Baku-Tbilisi-Ceyhan pipeline might gain some movement under Berdimuhammadov. Such a project would necessarily bring in more Western companies and expose the government to the benefits that neighboring countries, like Azerbaijan and Kazakhstan, had seen from western investment in their petroleum sectors.

COMMENT: HOPEFUL BUT REALISTIC

¶14. (SBU) Despite the frustrations and challenges faced by foreign companies operating in Turkmenistan, most of those attending the roundtable have found ways to prosper even within the existing system. Nonetheless, a higher volume of foreign investment would give investors, as a group, more power in pushing the government toward market practices and rule of law. But, as noted by the Bank of Pakistan representative, the problems in the business environment here must be addressed systemically and holistically -- from the banking system to the educational system to the legal system. Rapid change in one area without change in others would simply create a different set of problems. End Comment.

BRUSH